

IFRS AT A GLANCE  
*IFRIC 2 Members' Shares in  
Co-operative Entities and Similar  
Instruments*





# IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

Effective Date  
Periods beginning on or after 1 January 2005

## BACKGROUND AND ISSUE

Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. Members' interests in a co-operative are often characterised as members' shares or units or the like. IAS 32 *Financial Instruments: Presentation* establishes principles for the classification of financial instruments as financial liabilities or equity.

Many financial instruments, including members' shares, have characteristics of equity, including voting rights and rights to participate in dividend distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. Questions arise in respect of how those redemption terms should be evaluated in determining whether the financial instruments should be classified as liabilities or equity.

## SCOPE

- IFRIC 2 applies to financial instruments within the scope of IAS 32, including financial instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity
- IFRIC 2 does not apply to financial instruments that will or may be settled in the entity's own equity instruments.

## CONSENSUS

The contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.

## MEMBERS SHARES AS EQUITY

Members' shares that would be classified as equity if the members did not have a right to request redemption are equity if either of the conditions described below are present:

- Members' shares are equity if the entity has an unconditional right to refuse redemption of the shares
- If redemption is unconditionally prohibited by local law, regulation or a governing charter, shares are equity.

## EXAMPLES OF APPLICATION

Examples of different scenarios of the application of IFRIC 2 are given in the Appendix, which is an integral part of IFRIC 2.

## DISCLOSURE

When a change in the redemption prohibition leads to a transfer between financial liabilities and equity, the entity discloses separately the amount, timing and reason for the transfer.

## MEASUREMENT AFTER RECOGNITION

- An entity measures its financial liability for redemption at fair value
- In the case of members' shares with a redemption feature, the entity measures the fair value of the financial liability for redemption at no less than the maximum amount payable under the redemption provisions of its governing charter or applicable law discounted from the first date that the amount could be required to be paid.

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